

lack Hills Power, Inc.

(1) ☒ An Original  
(2) ☐ A Resubmission

(Mo, Da, Yr)  
04/18/2011

Exhibit BGI-2  
End of 2010/Q4

COMPARATIVE BALANCE SHEET (ASSETS AND OTHER DEBITS)

line no.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
1	<b>UTILITY PLANT</b>			
2	Utility Plant (101-106, 114)	200-201	934,075,156	755,933,398
3	Construction Work In Progress (107)	200-201	35,704,655	201,783,516
4	TOTAL Utility Plant (Enter Total of lines 2 and 3)		969,779,811	957,716,914
5	(Less) Accum. Prov. for Depr. Amort. Depl. (108, 110, 111, 115)	200-201	327,370,529	314,642,594
6	Net Utility Plant (Enter Total of line 4 less 5)		642,409,282	643,074,320
7	Nuclear Fuel in Process of Ref., Conv., Enrich., and Fab. (120.1)	202-203	0	0
8	Nuclear Fuel Materials and Assemblies-Stock Account (120.2)		0	0
9	Nuclear Fuel Assemblies in Reactor (120.3)		0	0
10	Spent Nuclear Fuel (120.4)		0	0
11	Nuclear Fuel Under Capital Leases (120.6)		0	0
12	(Less) Accum. Prov. for Amort. of Nucl. Fuel Assemblies (120.5)	202-203	0	0
13	Net Nuclear Fuel (Enter Total of lines 7-11 less 12)		0	0
14	Net Utility Plant (Enter Total of lines 6 and 13)		642,409,282	643,074,320
15	Utility Plant Adjustments (116)		0	0
16	Gas Stored Underground - Noncurrent (117)		0	0
17	<b>OTHER PROPERTY AND INVESTMENTS</b>			
18	Nonutility Property (121)		5,618	5,618
19	(Less) Accum. Prov. for Depr. and Amort. (122)		3,956	3,956
20	Investments in Associated Companies (123)		0	0
21	Investment in Subsidiary Companies (123.1)	224-225	0	0
22	(For Cost of Account 123.1, See Footnote Page 224, line 42)			
23	Noncurrent Portion of Allowances	228-229	0	0
24	Other Investments (124)		98,225	109,614
25	Sinking Funds (125)		0	0
26	Depreciation Fund (126)		0	0
27	Amortization Fund - Federal (127)		0	0
28	Other Special Funds (128)		4,395,674	4,197,081
29	Special Funds (Non Major Only) (129)		0	0
30	Long-Term Portion of Derivative Assets (175)		0	0
31	Long-Term Portion of Derivative Assets - Hedges (176)		0	0
32	TOTAL Other Property and Investments (Lines 18-21 and 23-31)		4,495,561	4,308,357
33	<b>CURRENT AND ACCRUED ASSETS</b>			
34	Cash and Working Funds (Non-major Only) (130)		0	0
35	Cash (131)		2,040,659	1,704,765
36	Special Deposits (132-134)		0	0
37	Working Fund (135)		4,175	4,175
38	Temporary Cash Investments (136)		0	0
39	Notes Receivable (141)		17,448	37,787
40	Customer Accounts Receivable (142)		16,011,944	18,277,962
41	Other Accounts Receivable (143)		7,296,436	1,294,824
42	(Less) Accum. Prov. for Uncollectible Acct.-Credit (144)		230,060	258,522
43	Notes Receivable from Associated Companies (145)		39,955,209	57,783,244
44	Accounts Receivable from Assoc. Companies (146)		6,891,042	4,145,756
45	Fuel Stock (151)	227	7,135,764	7,127,972
46	Fuel Stock Expenses Undistributed (152)	227	0	0
47	Residuals (Elec) and Extracted Products (153)	227	0	0
48	Plant Materials and Operating Supplies (154)	227	13,589,713	11,675,422
49	Merchandise (155)	227	0	0
50	Other Materials and Supplies (156)	227	100	100
51	Nuclear Materials Held for Sale (157)	202-203/227	0	0
52	Allowances (158.1 and 158.2)	228-229	0	0

EXHIBIT

35

tabbles

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Exhibit BGI-2  
End of 2010/Q4

COMPARATIVE BALANCE SHEET (ASSETS AND OTHER DEBITS)(Continued)

line no.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
53	(Less) Noncurrent Portion of Allowances		0	0
54	Stores Expense Undistributed (163)	227	533,690	21,637
55	Gas Stored Underground - Current (164.1)		0	0
56	Liquefied Natural Gas Stored and Held for Processing (164.2-164.3)		0	0
57	Prepayments (165)		3,617,542	1,460,374
58	Advances for Gas (166-167)		0	0
59	Interest and Dividends Receivable (171)		0	0
60	Rents Receivable (172)		0	0
61	Accrued Utility Revenues (173)		7,580,915	5,547,053
62	Miscellaneous Current and Accrued Assets (174)		0	0
63	Derivative Instrument Assets (175)		0	0
64	(Less) Long-Term Portion of Derivative Instrument Assets (175)		0	0
65	Derivative Instrument Assets - Hedges (176)		-2	0
66	(Less) Long-Term Portion of Derivative Instrument Assets - Hedges (176)		0	0
67	Total Current and Accrued Assets (Lines 34 through 66)		104,444,575	108,822,549
68	<b>DEFERRED DEBITS</b>			
69	Unamortized Debt Expenses (181)		3,238,032	3,419,329
70	Extraordinary Property Losses (182.1)	230a	0	0
71	Unrecovered Plant and Regulatory Study Costs (182.2)	230b	0	0
72	Other Regulatory Assets (182.3)	232	38,308,105	36,213,261
73	Prelim. Survey and Investigation Charges (Electric) (183)		328,007	295,878
74	Preliminary Natural Gas Survey and Investigation Charges 183.1)		0	0
75	Other Preliminary Survey and Investigation Charges (183.2)		0	0
76	Clearing Accounts (184)		117,954	451,166
77	Temporary Facilities (185)		0	0
78	Miscellaneous Deferred Debits (186)	233	-54,318	258,044
79	Def. Losses from Disposition of Utility Plt. (187)		0	0
80	Research, Devel. and Demonstration Expend. (188)	352-353	0	0
81	Unamortized Loss on Reaquired Debt (189)		3,015,994	2,206,352
82	Accumulated Deferred Income Taxes (190)	234	26,398,567	14,844,938
83	Unrecovered Purchased Gas Costs (191)		0	0
84	Total Deferred Debits (lines 69 through 83)		71,352,341	57,688,968
85	TOTAL ASSETS (lines 14-16, 32, 67, and 84)		822,701,759	813,894,194

Black Hills Power, Inc.

(1) ☒ An Original  
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04/18/2011Exhibit BGI-2  
end of 2010/Q4

## COMPARATIVE BALANCE SHEET (LIABILITIES AND OTHER CREDITS)

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
1	PROPRIETARY CAPITAL			
2	Common Stock Issued (201)	250-251	23,416,396	23,416,396
3	Preferred Stock Issued (204)	250-251	0	0
4	Capital Stock Subscribed (202, 205)		0	0
5	Stock Liability for Conversion (203, 206)		0	0
6	Premium on Capital Stock (207)		42,076,811	42,076,811
7	Other Paid-In Capital (208-211)	253	0	0
8	Installments Received on Capital Stock (212)	252	0	0
9	(Less) Discount on Capital Stock (213)	254	0	0
10	(Less) Capital Stock Expense (214)	254b	2,501,882	2,501,882
11	Retained Earnings (215, 215.1, 216)	118-119	247,687,972	216,419,980
12	Unappropriated Undistributed Subsidiary Earnings (216.1)	118-119	0	0
13	(Less) Reacquired Capital Stock (217)	250-251	0	0
14	Noncorporate Proprietorship (Non-major only) (218)		0	0
15	Accumulated Other Comprehensive Income (219)	122(a)(b)	-1,261,746	-1,213,092
16	Total Proprietary Capital (lines 2 through 15)		309,417,551	278,198,213
17	LONG-TERM DEBT			
18	Bonds (221)	256-257	255,000,000	307,499,999
19	(Less) Reacquired Bonds (222)	256-257	0	0
20	Advances from Associated Companies (223)	256-257	0	0
21	Other Long-Term Debt (224)	256-257	21,622,173	21,692,512
22	Unamortized Premium on Long-Term Debt (225)		0	0
23	(Less) Unamortized Discount on Long-Term Debt-Debit (226)		119,370	123,510
24	Total Long-Term Debt (lines 18 through 23)		276,502,803	329,069,001
25	OTHER NONCURRENT LIABILITIES			
26	Obligations Under Capital Leases - Noncurrent (227)		0	0
27	Accumulated Provision for Property Insurance (228.1)		986,005	0
28	Accumulated Provision for Injuries and Damages (228.2)		0	0
29	Accumulated Provision for Pensions and Benefits (228.3)		0	0
30	Accumulated Miscellaneous Operating Provisions (228.4)		0	0
31	Accumulated Provision for Rate Refunds (229)		3,748	0
32	Long-Term Portion of Derivative Instrument Liabilities		0	0
33	Long-Term Portion of Derivative Instrument Liabilities - Hedges		0	0
34	Asset Retirement Obligations (230)		0	0
35	Total Other Noncurrent Liabilities (lines 26 through 34)		989,753	0
36	CURRENT AND ACCRUED LIABILITIES			
37	Notes Payable (231)		0	0
38	Accounts Payable (232)		13,521,848	21,855,401
39	Notes Payable to Associated Companies (233)		0	0
40	Accounts Payable to Associated Companies (234)		12,558,267	10,030,043
41	Customer Deposits (235)		977,967	669,906
42	Taxes Accrued (236)	262-263	3,973,829	4,380,204
43	Interest Accrued (237)		4,126,079	5,449,671
44	Dividends Declared (238)		0	0
45	Matured Long-Term Debt (239)		0	0

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(mo, da, yr)

04/18/2011

Exhibit BGI-2  
end of 2010/Q4

COMPARATIVE BALANCE SHEET (LIABILITIES AND OTHER CREDITS) (Continued)

line no.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
46	Matured Interest (240)		0	0
47	Tax Collections Payable (241)		1,264,725	2,319,164
48	Miscellaneous Current and Accrued Liabilities (242)		4,863,936	6,411,221
49	Obligations Under Capital Leases-Current (243)		0	0
50	Derivative Instrument Liabilities (244)		0	0
51	(Less) Long-Term Portion of Derivative Instrument Liabilities		0	0
52	Derivative Instrument Liabilities - Hedges (245)		0	5,347
53	(Less) Long-Term Portion of Derivative Instrument Liabilities-Hedges		0	0
54	Total Current and Accrued Liabilities (lines 37 through 53)		41,286,651	51,120,957
55	DEFERRED CREDITS			
56	Customer Advances for Construction (252)		3,434,637	4,224,858
57	Accumulated Deferred Investment Tax Credits (255)	266-267	14,266	113,590
58	Deferred Gains from Disposition of Utility Plant (256)		0	0
59	Other Deferred Credits (253)	269	23,836,508	35,747,054
60	Other Regulatory Liabilities (254)	278	14,774,843	2,515,601
61	Unamortized Gain on Reacquired Debt (257)		0	0
62	Accum. Deferred Income Taxes-Accel. Amort.(281)	272-277	0	-1
63	Accum. Deferred Income Taxes-Other Property (282)		135,205,214	93,252,936
64	Accum. Deferred Income Taxes-Other (283)		17,239,533	19,651,985
65	Total Deferred Credits (lines 56 through 64)		194,505,001	155,506,023
66	TOTAL LIABILITIES AND STOCKHOLDER EQUITY (lines 16, 24, 35, 54 and 65)		822,701,759	813,894,194

quarterly

If additional columns are needed, place them in a footnote.

Annual or Quarterly if applicable

Do not report fourth quarter data in columns (e) and (f)

Report amounts for accounts 412 and 413, Revenues and Expenses from Utility Plant Leased to Others, in another utility column in a similar manner to utility department. Spread the amount(s) over lines 2 thru 26 as appropriate. Include these amounts in columns (c) and (d) totals.

Report amounts in account 414, Other Utility Operating Income, in the same manner as accounts 412 and 413 above.

line no.	Title of Account (a)	(Ref.) Page No. (b)	Total Current Year to Date Balance for Quarter/Year (c)	Total Prior Year to Date Balance for Quarter/Year (d)	Current 3 Months Ended Quarterly Only No 4th Quarter (e)	Prior 3 Months Ended Quarterly Only No 4th Quarter (f)
1	UTILITY OPERATING INCOME					
2	Operating Revenues (400)	300-301	230,227,106	201,802,829		
3	Operating Expenses					
4	Operation Expenses (401)	320-323	137,448,652	133,917,447		
5	Maintenance Expenses (402)	320-323	14,330,107	12,034,887		
6	Depreciation Expense (403)	336-337	21,886,431	19,313,360		
7	Depreciation Expense for Asset Retirement Costs (403.1)	336-337				
8	Amort. & Depl. of Utility Plant (404-405)	336-337	32,286			
9	Amort. of Utility Plant Acq. Adj. (406)	336-337	110,906	151,404		
10	Amort. Property Losses, Unrecov Plant and Regulatory Study Costs (407)		739,444			
11	Amort. of Conversion Expenses (407)					
12	Regulatory Debits (407.3)			1,221,513		
13	(Less) Regulatory Credits (407.4)			6,252,146		
14	Taxes Other Than Income Taxes (408.1)	262-263	6,603,929	6,482,716		
15	Income Taxes - Federal (409.1)	262-263	-14,896,058	-3,949,426		
16	- Other (409.1)	262-263	5,613	-9,843		
17	Provision for Deferred Income Taxes (410.1)	234, 272-277	55,238,969	14,282,207		
18	(Less) Provision for Deferred Income Taxes-Cr. (411.1)	234, 272-277	29,514,065	2,557,392		
19	Investment Tax Credit Adj. - Net (411.4)	266	-99,324	-124,398		
20	(Less) Gains from Disp. of Utility Plant (411.6)					
21	Losses from Disp. of Utility Plant (411.7)					
22	(Less) Gains from Disposition of Allowances (411.8)					
23	Losses from Disposition of Allowances (411.9)					
24	Accretion Expense (411.10)					
25	TOTAL Utility Operating Expenses (Enter Total of lines 4 thru 24)		191,886,890	174,510,329		
26	Net Util Oper Inc (Enter Tot line 2 less 25) Carry to Pg117,line 27		38,340,216	27,292,500		

Use page 122 for important notes regarding the statement of income for any account thereof.

j. If the columns are insufficient for reporting additional utility departments, supply the appropriate account titles report the information in a footnote to this schedule.

ELECTRIC UTILITY		GAS UTILITY		OTHER UTILITY		Line No.
Current Year to Date (in dollars) (g)	Previous Year to Date (in dollars) (h)	Current Year to Date (in dollars) (i)	Previous Year to Date (in dollars) (j)	Current Year to Date (in dollars) (k)	Previous Year to Date (in dollars) (l)	
						1
230,227,106	201,802,829					2
						3
137,448,652	133,917,447					4
14,330,107	12,034,887					5
21,886,431	19,313,360					6
						7
32,286						8
110,906	151,404					9
739,444						10
						11
	1,221,513					12
	6,252,146					13
6,603,929	6,482,716					14
-14,896,058	-3,949,426					15
5,613	-9,843					16
55,238,969	14,282,207					17
29,514,065	2,557,392					18
-99,324	-124,398					19
						20
						21
						22
						23
						24
191,886,890	174,510,329					25
38,340,216	27,292,500					26



## STATEMENT OF INCOME FOR THE YEAR (continued)

line no.	Title of Account (a)	(Ref.) Page No. (b)	TOTAL		Current 3 Months Ended Quarterly Only No 4th Quarter (e)	Prior 3 Months Ended Quarterly Only No 4th Quarter (f)
			Current Year (c)	Previous Year (d)		
27	Net Utility Operating Income (Carried forward from page 114)		38,340,216	27,292,500		
28	Other Income and Deductions					
29	Other Income					
30	Nonutility Operating Income					
31	Revenues From Merchandising, Jobbing and Contract Work (415)		98,555	245,200		
32	(Less) Costs and Exp. of Merchandising, Job. & Contract Work (416)		107,376	217,219		
33	Revenues From Nonutility Operations (417)		174,521			
34	(Less) Expenses of Nonutility Operations (417.1)		5,601			
35	Nonoperating Rental Income (418)					
36	Equity In Earnings of Subsidiary Companies (418.1)	119				
37	Interest and Dividend Income (419)		5,729,117	862,656		
38	Allowance for Other Funds Used During Construction (419.1)		2,748,351	5,831,355		
39	Miscellaneous Nonoperating Income (421)		221,681	1,971,295		
40	Gain on Disposition of Property (421.1)		6,237,887			
41	TOTAL Other Income (Enter Total of lines 31 thru 40)		15,097,135	8,693,287		
42	Other Income Deductions					
43	Loss on Disposition of Property (421.2)					
44	Miscellaneous Amortization (425)					
45	Donations (426.1)		197,321	104,368		
46	Life Insurance (426.2)					
47	Penalties (426.3)		32,830			
48	Exp. for Certain Civic, Political & Related Activities (426.4)		7,741			
49	Other Deductions (426.5)		1,875			
50	TOTAL Other Income Deductions (Total of lines 43 thru 49)		239,767	104,368		
51	Taxes Applicable to Other Income and Deductions					
52	Taxes Other Than Income Taxes (408.2)	262-263		52,456		
53	Income Taxes-Federal (409.2)	262-263	5,812	683,218		
54	Income Taxes-Other (409.2)	262-263				
55	Provision for Deferred Inc. Taxes (410.2)	234, 272-277				
56	(Less) Provision for Deferred Income Taxes-Cr. (411.2)	234, 272-277				
57	Investment Tax Credit Adj.-Net (411.5)					
58	(Less) Investment Tax Credits (420)					
59	TOTAL Taxes on Other Income and Deductions (Total of lines 52-58)		5,812	715,674		
60	Net Other Income and Deductions (Total of lines 41, 50, 59)		14,851,556	7,873,245		
61	Interest Charges					
62	Interest on Long-Term Debt (427)		18,634,711	13,268,095		
63	Amort. of Debt Disc. and Expense (428)		210,479	149,486		
64	Amortization of Loss on Reacquired Debt (428.1)		216,382	160,478		
65	(Less) Amort. of Premium on Debt-Credit (429)					
66	(Less) Amortization of Gain on Reacquired Debt-Credit (429.1)					
67	Interest on Debt to Assoc. Companies (430)		4,944,159	1,796,995		
68	Other Interest Expense (431)		141,930	1,008,552		
69	(Less) Allowance for Borrowed Funds Used During Construction-Cr. (432)		2,223,881	4,356,715		
70	Net Interest Charges (Total of lines 62 thru 69)		21,923,780	12,026,891		
71	Income Before Extraordinary Items (Total of lines 27, 60 and 70)		31,267,992	23,138,854		
72	Extraordinary Items					
73	Extraordinary Income (434)					
74	(Less) Extraordinary Deductions (435)					
75	Net Extraordinary Items (Total of line 73 less line 74)					
76	Income Taxes-Federal and Other (409.3)	262-263				
77	Extraordinary Items After Taxes (line 75 less line 76)					
78	Net Income (Total of line 71 and 77)		31,267,992	23,138,854		

## STATEMENT OF CASH FLOWS

) Codes to be used: (a) Net Proceeds or Payments; (b) Bonds, debentures and other long-term debt; (c) Include commercial paper; and (d) Identify separately such items as investments, fixed assets, intangibles, etc.

) Information about noncash investing and financing activities must be provided in the Notes to the Financial statements. Also provide a reconciliation between "Cash and Cash equivalents at End of Period" with related amounts on the Balance Sheet.

) Operating Activities - Other: Include gains and losses pertaining to operating activities only. Gains and losses pertaining to investing and financing activities should be reported those activities. Show in the Notes to the Financials the amounts of interest paid (net of amount capitalized) and income taxes paid.

) Investing Activities: Include at Other (line 31) net cash outflow to acquire other companies. Provide a reconciliation of assets acquired with liabilities assumed in the Notes to the Financial Statements. Do not include on this statement the dollar amount of leases capitalized per the USofA General Instruction 20; instead provide a reconciliation of the dollar amount of leases capitalized with the plant cost.

line	Description (See Instruction No. 1 for Explanation of Codes) (a)	Current Year to Date Quarter/Year (b)	Previous Year to Date Quarter/Year (c)
1	Net Cash Flow from Operating Activities:		
2	Net Income (Line 78(c) on page 117)	31,267,992	23,138,854
3	Noncash Charges (Credits) to Income:		
4	Depreciation and Depletion	22,029,623	19,313,360
5	Amortization of		151,404
6	Other	-6,541,711	149,486
7	Loss of Recquired Debt		160,478
8	Deferred Income Taxes (Net)	25,625,579	11,724,815
9	Investment Tax Credit Adjustment (Net)		-124,398
10	Net (Increase) Decrease in Receivables	-14,542,283	13,301,001
11	Net (Increase) Decrease in Inventory		484,106
12	Net (Increase) Decrease in Allowances Inventory		
13	Net Increase (Decrease) in Payables and Accrued Expenses	-5,523,373	-13,776,381
14	Net (Increase) Decrease in Other Regulatory Assets	3,882,771	-380,609
15	Net Increase (Decrease) in Other Regulatory Liabilities	3,562,000	3,137,041
16	(Less) Allowance for Other Funds Used During Construction	2,748,351	5,831,355
17	(Less) Undistributed Earnings from Subsidiary Companies		
18	Other (provide details in footnote):		-12,829,292
19	Contribution to defined benefit plan	-8,798,000	
20	Other	2,388,238	
21			
22	Net Cash Provided by (Used in) Operating Activities (Total 2 thru 21)	50,602,485	38,618,510
23			
24	Cash Flows from Investment Activities:		
25	Construction and Acquisition of Plant (including land):		
26	Gross Additions to Utility Plant (less nuclear fuel)	-78,601,707	-88,476,715
27	Gross Additions to Nuclear Fuel		
28	Gross Additions to Common Utility Plant		
29	Gross Additions to Nonutility Plant		
30	(Less) Allowance for Other Funds Used During Construction		-5,831,355
31	Other (provide details in footnote):		
32			
33			
34	Cash Outflows for Plant (Total of lines 26 thru 33)	-78,601,707	-82,645,360
35			
36	Acquisition of Other Noncurrent Assets (d)		
37	Proceeds from Disposal of Noncurrent Assets (d)	62,000,000	
38			
39	Investments in and Advances to Assoc. and Subsidiary Companies		
40	Contributions and Advances from Assoc. and Subsidiary Companies	17,875,221	-57,737,227
41	Disposition of Investments in (and Advances to)		
42	Associated and Subsidiary Companies		
43			
44	Purchase of Investment Securities (a)		
45	Proceeds from Sales of Investment Securities (a)		



) Codes to be used: (a) Net Proceeds or Payments; (b) Bonds, debentures and other long-term debt; (c) Include commercial paper; and (d) Identify separately such items as investments, fixed assets, intangibles, etc.

) Information about noncash investing and financing activities must be provided in the Notes to the Financial statements. Also provide a reconciliation between "Cash and Cash equivalents at End of Period" with related amounts on the Balance Sheet.

) Operating Activities - Other: Include gains and losses pertaining to operating activities only. Gains and losses pertaining to investing and financing activities should be reported those activities. Show in the Notes to the Financials the amounts of interest paid (net of amount capitalized) and income taxes paid.

) Investing Activities: Include at Other (line 31) net cash outflow to acquire other companies. Provide a reconciliation of assets acquired with liabilities assumed in the Notes to the Financial Statements. Do not include on this statement the dollar amount of leases capitalized per the USofA General Instruction 20; instead provide a reconciliation of the dollar amount of leases capitalized with the plant cost.

line no.	Description (See Instruction No. 1 for Explanation of Codes) (a)	Current Year to Date Quarter/Year (b)	Previous Year to Date Quarter/Year (c)
46	Loans Made or Purchased		
47	Collections on Loans		
48			
49	Net (Increase) Decrease in Receivables		-4,000,898
50	Net (Increase ) Decrease in Inventory		
51	Net (Increase) Decrease in Allowances Held for Speculation		
52	Net Increase (Decrease) in Payables and Accrued Expenses		
53	Other (provide details in footnote):		
54	Other	2,202,407	-160,479
55			
56	Net Cash Provided by (Used in) Investing Activities		
57	Total of lines 34 thru 55)	3,475,921	-144,543,964
58			
59	Cash Flows from Financing Activities:		
60	Proceeds from Issuance of:		
61	Long-Term Debt (b)		180,000,000
62	Preferred Stock		
63	Common Stock		
64	Other (provide details in footnote):		
65			
66	Net Increase in Short-Term Debt (c)		-70,229,883
67	Other (provide details in footnote):		
68			
69			
70	Cash Provided by Outside Sources (Total 61 thru 69)		109,770,117
71			
72	Payments for Retirement of:		
73	Long-term Debt (b)	-52,566,198	-2,016,387
74	Preferred Stock		
75	Common Stock		
76	Other (provide details in footnote):	-1,176,314	
77			
78	Net Decrease in Short-Term Debt (c)		
79	Unamortized Discount on Long term Debt		-123,511
80	Dividends on Preferred Stock		
81	Dividends on Common Stock		
82	Net Cash Provided by (Used in) Financing Activities		
83	(Total of lines 70 thru 81)	-53,742,512	107,630,219
84			
85	Net Increase (Decrease) in Cash and Cash Equivalents		
86	(Total of lines 22,57 and 83)	335,894	1,704,765
87			
88	Cash and Cash Equivalents at Beginning of Period	1,708,940	4,175
89			
90	Cash and Cash Equivalents at End of period	2,044,834	1,708,940

## NOTES TO FINANCIAL STATEMENTS

- . Use the space below for important notes regarding the Balance Sheet, Statement of Income for the year, Statement of Retained earnings for the year, and Statement of Cash Flows, or any account thereof. Classify the notes according to each basic statement, providing a subheading for each statement except where a note is applicable to more than one statement.
- . Furnish particulars (details) as to any significant contingent assets or liabilities existing at end of year, including a brief explanation of any action initiated by the Internal Revenue Service involving possible assessment of additional income taxes of material amount, or of claim for refund of income taxes of a material amount initiated by the utility. Give also a brief explanation of any dividends in arrears on cumulative preferred stock.
- . For Account 116, Utility Plant Adjustments, explain the origin of such amount, debits and credits during the year, and plan of disposition contemplated, giving references to Commission orders or other authorizations respecting classification of amounts as plant adjustments and requirements as to disposition thereof.
- . Where Accounts 189, Unamortized Loss on Reacquired Debt, and 257, Unamortized Gain on Reacquired Debt, are not used, give an explanation, providing the rate treatment given these items. See General Instruction 17 of the Uniform System of Accounts.
- . Give a concise explanation of any retained earnings restrictions and state the amount of retained earnings affected by such restrictions.
- . If the notes to financial statements relating to the respondent company appearing in the annual report to the stockholders are applicable and furnish the data required by instructions above and on pages 114-121, such notes may be included herein.
- . For the 3Q disclosures, respondent must provide in the notes sufficient disclosures so as to make the interim information not misleading. Disclosures which would substantially duplicate the disclosures contained in the most recent FERC Annual Report may be omitted.
- . For the 3Q disclosures, the disclosures shall be provided where events subsequent to the end of the most recent year have occurred which have a material effect on the respondent. Respondent must include in the notes significant changes since the most recently completed year in such items as: accounting principles and practices; estimates inherent in the preparation of the financial statements; status of long-term contracts; capitalization including significant new borrowings or modifications of existing financing agreements; and changes resulting from business combinations or dispositions. However where material contingencies exist, the disclosure of such matters shall be provided even though a significant change since year end may not have occurred.
- . Finally, if the notes to the financial statements relating to the respondent appearing in the annual report to the stockholders are applicable and furnish the data required by the above instructions, such notes may be included herein.

PAGE 122 INTENTIONALLY LEFT BLANK  
SEE PAGE 123 FOR REQUIRED INFORMATION.

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NOTES TO FINANCIAL STATEMENTS (Continued)			

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2010, 2009 and 2008**

**(1) BUSINESS DESCRIPTION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Business Description**

Black Hills Power, Inc. (the Company, "we," "us" or "our") is an electric utility serving customers in South Dakota, Wyoming and Montana. We are a wholly-owned subsidiary of Black Hills Corporation (BHC) or the Parent, a public registrant listed on the New York Stock Exchange.

**Basis of Presentation**

The financial statements include the accounts of Black Hills Power, Inc. and also the Company's ownership interests in the assets, liabilities and expenses of its jointly owned facilities (Note 4).

The financial statements were prepared in accordance with the accounting requirements of the Federal Energy Regulatory Commission (FERC) as set forth in its applicable Uniform System of Accounts and published accounting releases, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). Additionally, these requirements differ from GAAP related to the presentation of certain items including deferred income taxes, and cost of removal liabilities. The Company's notes to the financial statements are prepared in conformity with GAAP. Accordingly, certain footnotes are not reflective of the Company's FERC basis financial statements contained herein.

The Statement of Cash Flows for 2009 has been modified to reflect a break out of notes receivable and notes payable between our cash flows from operating activities and financing activities.

**Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Regulatory Accounting**

Our regulated electric operations are subject to regulation by various state and federal agencies. The accounting policies followed are generally subject to the Uniform System of Accounts of FERC.

Our regulated utility operations follow accounting standards for regulated operations and our financial statements reflect the effects of the different ratemaking principles followed by the various jurisdictions regulating our electric operations. If rate recovery becomes unlikely or uncertain due to competition or regulatory action, these accounting standards may no longer apply to our regulated operations. In the event we determine that we no longer meet the criteria for following accounting standards for regulated operations, the accounting impact to us could be an extraordinary non-cash charge to operations in an amount that could be material.

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NOTES TO FINANCIAL STATEMENTS (Continued)			

Our regulatory assets and liabilities for which we recover the costs, but we do not earn a return were as follows as of December 31 (in thousands):

	Recovery Period	2010	2009
Regulatory assets:			
Unamortized loss on reacquired debt	14 years	\$ 3,016	\$ 2,207
AFUDC	Up to 45 years	9,489	7,579
Defined benefit postretirement plans	Up to 13 years	18,049	21,024
Deferred energy costs	Less than one year	3,584	7,467
Flow through accounting	Up to 35 years	4,772	—
Other		2,414	495
Total regulatory assets		\$ 41,324	\$ 38,772
Regulatory liabilities:			
Cost of removal for utility plant	Up to 53 years	\$ 15,429	\$ 13,678
Defined benefit postretirement plans	Up to 13 years	10,204	—
Other		4,575	2,515
Total regulatory liabilities		\$ 30,208	\$ 16,193

Regulatory assets are primarily recorded for the probable future revenue to recover the costs associated with defined benefit postretirement plans, future income taxes related to the deferred tax liability for the equity component of AFUDC of utility assets and unamortized losses on reacquired debt. To the extent that energy costs are under-recovered or over-recovered during the year, they are recorded as a regulatory asset or liability, respectively. Regulatory liabilities include the probable future decrease in rate revenues related to a decrease in deferred tax liabilities for prior reductions in statutory federal income tax rates, gains associated with regulated utilities' defined benefit postretirement plans and the cost of removal for utility plant, recovered through our electric utility rates. Regulatory assets are included in Regulatory assets, current and Regulatory assets, non-current on the accompanying Balance Sheets. Regulatory liabilities are included in Regulatory liabilities, current and Regulatory liabilities, non-current on the accompanying Balance Sheets.

#### Allowance for Funds Used During Construction

AFUDC represents the approximate composite cost of borrowed funds and a return on capital used to finance a project. Our AFUDC for the years ended December 31 was as follows (in thousands):

	2010	2009	2008
AFUDC - borrowed	\$ 2,224	\$ 4,357	2,556
AFUDC - equity	2,748	5,831	3,605
Total AFUDC	\$ 4,972	\$ 10,188	\$ 6,161

#### Cash Equivalents

We consider all highly liquid investments with an original maturity of three months or less to be cash equivalents.

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Black Hills Power, Inc.			
NOTES TO FINANCIAL STATEMENTS (Continued)			

### Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts which reflects our best estimate of potentially uncollectible trade receivables. We regularly review our trade receivable allowances by considering such factors as historical experience, credit worthiness, the age of the receivable balances and current economic conditions that may affect the ability to pay.

Accounts receivable consist of sales to residential, commercial, industrial, municipal and other customers all of which do not bear interest. These accounts receivables are stated at billed amounts net of write-offs or payment received. Approximately 26% of the accounts receivable balance consists of unbilled revenue.

The allowance for doubtful accounts represents our best estimate of existing accounts receivable that will ultimately be uncollected. The allowance is calculated by applying estimated write-off factors to various classes of outstanding receivables, including unbilled revenue. The write-off factors used to estimate uncollectible accounts are based upon consideration of both historical collections experience and management's best estimate of future collection success given the existing collections environment.

Following is a summary of accounts receivables at December 31 (in thousands):

	2010	2009
Accounts receivable trade	\$ 21,365	\$ 14,703
Unbilled revenues	7,581	5,547
Total accounts receivable - customers	28,946	20,250
Allowance for doubtful accounts	(230)	(259)
Net accounts receivable	\$ 28,716	\$ 19,991

### Materials, Supplies and Fuel

Materials, supplies and fuel used for construction, operation and maintenance purposes are generally stated on a weighted-average cost basis. To the extent fuel has been designated as the underlying hedged item in a "fair value" hedge transaction, those volumes are stated at market value using published industry quotations.

### Deferred Financing Costs

Deferred financing costs are amortized using the effective interest method over the term of the related debt.

### Property, Plant and Equipment

Additions to property, plant and equipment are recorded at cost when placed in service. The cost of regulated electric property, plant and equipment retired, or otherwise disposed of in the ordinary course of business, less salvage, is charged to accumulated depreciation. Removal costs associated with non-legal obligations are reclassified from accumulated depreciation and reflected as regulatory liabilities. Ordinary repairs and maintenance of property are charged to operations as incurred.

Depreciation provisions for regulated electric property, plant and equipment are computed on a straight-line basis using an annual composite rate of 2.2% in 2010, 2.8% in 2009 and 3.2% in 2008.

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Black Hills Power, Inc.		04/18/2011	2010/Q4
NOTES TO FINANCIAL STATEMENTS (Continued)			

### Derivatives and Hedging Activities

From time to time we utilize risk management contracts including forward purchases and sales and fixed-for-float swaps to hedge the price of fuel for our combustion turbines, maximize the value of our natural gas storage or fix the interest on our variable rate debt. Contracts that qualify as derivatives under accounting standards for derivatives, and that are not exempted such as normal purchase/normal sale, are required to be recorded in the balance sheet as either an asset or liability, measured at its fair value. Accounting standards for derivatives require that changes in the derivative instrument's fair value be recognized currently in earnings unless specific hedge accounting criteria are met.

Accounting standards for derivatives allow hedge accounting for qualifying fair value and cash flow hedges. Gain or loss on a derivative instrument designated and qualifying as a fair value hedging instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk should be recognized currently in earnings in the same accounting period. Conversely, the effective portion of the gain or loss on a derivative instrument designated and qualifying as a cash flow hedging instrument should be reported as a component of other comprehensive income, net of tax, and be reclassified into earnings in the same period or periods during which the hedged forecasted transaction affects earnings. The remaining gain or loss on the derivative instrument, if any, is recognized currently in earnings.

### Impairment of Long-Lived Assets

We periodically evaluate whether events and circumstances have occurred which may affect the estimated useful life or the recoverability of the remaining balance of our long-lived assets. If such events or circumstances were to indicate that the carrying amount of these assets was not recoverable, we would estimate the future cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected future cash flows (undiscounted and without interest charges) was less than the carrying amount of the long-lived assets, we would recognize an impairment loss. No impairment loss was recorded during 2010, 2009 or 2008.

### Income Taxes

We use the liability method in accounting for income taxes. Under the liability method, deferred income taxes are recognized at currently enacted income tax rates, to reflect the tax effect of temporary differences between the financial and tax basis of assets and liabilities, as well as operating loss and tax credit carryforwards. Such temporary differences are the result of provisions in the income tax law that either require or permit certain items to be reported on the income tax return in a different period than they are reported in the financial statements. We classify deferred tax assets and liabilities into current and non-current amounts based on the classification of the related assets and liabilities.

We file a federal income tax return with other affiliates. For financial statement purposes, federal income taxes are allocated to the individual companies based on amounts calculated on a separate return basis.

### Revenue Recognition

Revenue is recognized when there is persuasive evidence of an arrangement with a fixed or determinable price, delivery has occurred or services have been rendered, and collectibility is reasonably assured.



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NOTES TO FINANCIAL STATEMENTS (Continued)			

## (2) RECENTLY ADOPTED AND RECENTLY ISSUED ACCOUNTING STANDARDS

### Recently Adopted Accounting Standards

#### Disclosures About the Credit Quality of Financing Receivables and the Allowance for Credit Losses, ASC 310-10-50

In July 2010, the FASB issued an amendment to ASC 310-10-50, Receivables - Disclosures. The guidance requires additional disclosures that will facilitate financial statement user's evaluation of the nature of credit risk inherent in financing receivables, how that risk is analyzed in arriving at the allowance for credit losses, and the reason for any changes in the allowance for credit losses. These disclosures should be provided on a disaggregated basis but exempts trade receivables that have a contractual maturity of one year or less, receivables measured at lower of cost or fair value, and receivables measured at fair value with the changes in fair value reported in earnings. (See Note 1) It is effective for interim and annual reporting periods ending on or after December 15, 2010.

#### Consolidation of Variable Interest Entities, ASC 810-10-15

In June 2009, the FASB issued a revision regarding consolidations. The amendment requires a company to consider whether an entity that is insufficiently capitalized or is not controlled through voting should be consolidated. It requires additional disclosures about the involvement with variable interest entities and any significant changes in risk exposure due to that involvement. This standard is effective for annual periods that begin after November 15, 2009 with ongoing re-evaluation. The adoption of this standard in January 2010 did not have any impact on our financial statements, results of operations, and cash flows.

### Recently Issued Accounting Standards and Legislation

#### Patient Protection and Affordable Care Act (PPACA)

In March 2010, the President of the United States signed into law comprehensive healthcare reform legislation under the PPACA as amended by the Healthcare and Education Reconciliation Act. The potential impact on the Company, if any, cannot be determined until regulations are promulgated under the PPACA. Included among the provisions of the PPACA is a change in the tax treatment of the Medicare Part D subsidy (the "subsidy") which affects our Non-Pension Postretirement Benefit Plan. Internal Revenue Code Section 139A has been amended to eliminate the deduction of the subsidy in reducing income for years beginning after December 31, 2012. The impact of this change in the tax treatment of the subsidy had an immaterial effect on our financial position, results of operations and cash flows. The Company will continue to assess the accounting implications of the PPACA as related regulations and interpretations become available.

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NOTES TO FINANCIAL STATEMENTS (Continued)			

**(3) PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment consisted of the following (in thousands):

	December 31, 2010		December 31, 2009		Lives (in years)
	December 31, 2010	Weighted Average Useful Life	December 31, 2009	Weighted Average Useful Life	
Electric plant:					
Production	\$ 475,762	50	\$ 336,534	53	30-62
Transmission	116,056	43	86,841	44	35-55
Distribution	271,470	37	264,847	37	15-65
Plant acquisition adjustment	4,870	32	4,870	32	32
General	58,777	22	55,701	22	10-50
Total electric plant	926,935		748,793		
Less accumulated depreciation and amortization	304,800		293,823		
Electric plant net of accumulated depreciation and amortization	622,135		454,970		
Construction work in progress	35,705		201,784		
Net electric plant	\$ 657,840		\$ 656,754		

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NOTES TO FINANCIAL STATEMENTS (Continued)			

**(4) JOINTLY OWNED FACILITIES**

We use the proportionate consolidation method to account for our percentage interest in the assets, liabilities and expenses of the following facilities:

- ☐ We own a 20% interest and PacifiCorp owns an 80% interest in the Wyodak Plant (the Plant), a 362 MW coal-fired electric generating station located in Campbell County, Wyoming. PacifiCorp is the operator of the Plant. We receive 20% of the Plant's capacity and are committed to pay 20% of its additions, replacements and operating and maintenance expenses. Our investment in the Plant and accumulated depreciation is included in the corresponding captions in the accompanying Balance Sheets. Our share of direct expenses of the Plant is included in the corresponding categories of operating expenses in the accompanying Statements of Income.
- ☐ We own a 35% interest and Basin Electric owns a 65% interest in the Converter Station Site and South Rapid City Interconnection (the transmission tie), an AC-DC-AC transmission tie. The transmission tie provides an interconnection between the Western and Eastern transmission grids, which provides us with access to both the WECC region and the MAPP region. The total transfer capacity of the transmission tie is 400 MW - 200 MW West to East and 200 MW from East to West. We are committed to pay 35% of the additions, replacements and operating and maintenance expenses. Our investment in the transmission tie and accumulated depreciation is included in the corresponding captions in the accompanying Balance Sheets.
- ☐ We own a 52% interest in the Wygen III power plant. MDU owns 25% which was purchased in April 2009. At closing, MDU made a payment to us for its 25% share of the costs to date on the ongoing construction of the facility and subsequently reimbursed us for 25% of the total costs paid to complete the project. Our share of direct expenses of the jointly-owned facility are included in Operating expenses in the Statements of Income. Our share of property, plant and equipment in Wygen III and associated accumulated depreciation is included in the corresponding captions in the accompanying Balance Sheets.
- ☐ The City of Gillette owns a 23% interest in the Wygen III power plant which was purchased in July 2010 for \$62.0 million. Wygen III was placed into commercial operations on April 1, 2010. Our share of direct expenses of the jointly-owned facility are included in Operating expenses in the Statements of Income. Our share of property, plant and equipment in Wygen III and associated accumulated depreciation is included in the corresponding captions in the accompanying Balance Sheets.

Our share of direct expenses related to our jointly owned plants for the years ended December 31 was as follows (dollars in thousands):

Share of Direct Expenses	Ownership Percentage	2010	2009	2008
Wyodak Plant	20.0%	\$ 8,546	\$ 8,021	\$ 8,000
Transmission Tie	35.0%	\$ 154	\$ 100	\$ 123
Wygen III (a)	52.0%	\$ 7,618	\$ —	\$ —

(a) The Wygen III plant commenced commercial operations on April 1, 2010.

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NOTES TO FINANCIAL STATEMENTS (Continued)			

As of December 31, 2010, our interests in jointly-owned generating facilities and transmission systems included on our Balance Sheets were as follows (dollars in thousands):

Share of Direct Expenses	Ownership Percentage	Plant in Service	Construction Work in Progress	Accumulated Depreciation
Wyodak Plant	20.0%	\$ 82,466	\$ 21,687	\$ 54,108
Transmission Tie	35.0%	\$ 19,644	\$ —	\$ 4,111
Wygen III (a)	52.0%	\$ 129,340	\$ 194	\$ 2,282

(a) The Wygen III plant commenced commercial operations on April 1, 2010.

##### (5) RISK MANAGEMENT

We hold natural gas in storage for use as fuel for generating electricity with our gas-fired combustion turbines. To minimize associated price risk and seasonal storage level requirements, we utilize various derivative instruments in managing these risks. As of December 31, 2010, there were no derivative contracts outstanding. As of December 31, 2009, we had the following derivatives and related balances included in Accrued liabilities on the accompanying Balance Sheet (dollars, in thousands):

	December 31, 2009
Notional*	232,500
Maximum terms in months	10
Current derivative liabilities	\$ 5
Pre-tax accumulated other comprehensive loss	\$ (5)

\* Gas in MMBtus

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NOTES TO FINANCIAL STATEMENTS (Continued)			

**(6) LONG-TERM DEBT**

Long-term debt outstanding was as follows (in thousands):

	December 31, 2010	December 31, 2009
First mortgage bonds:		
8.06% due 2010	\$ —	\$ 30,000
9.49% due 2018	—	2,520
9.35% due 2021	—	19,980
7.23% due 2032	75,000	75,000
6.125% due 2039	180,000	180,000
Unamortized discount on 6.125% bonds	(119)	(124)
	<u>254,881</u>	<u>307,376</u>
Other long-term debt:		
Pollution control revenue bonds at 4.8% due 2014	6,450	6,450
Pollution control revenue bonds at 5.35% due 2024	12,200	12,200
Other	2,972	3,043
	<u>21,622</u>	<u>21,693</u>
Total long-term debt	276,503	329,069
Less current maturities	(81)	(32,025)
Net long-term debt	<u>\$ 276,422</u>	<u>\$ 297,044</u>

**Bond Issuance**

On October 27, 2009, we completed a \$180 million first mortgage bond issuance. The bonds were priced at 99.931% of par and a reoffer yield of 6.13%. The bonds mature November 1, 2039 and carry an annual interest rate of 6.125%, which is paid semi-annually. We received proceeds net of underwriting fees of \$178.3 million which were used to repay intercompany borrowings from BHC, primarily incurred to fund the construction of Wygen III, and to redeem the Series AC mortgage bonds. Deferred finance costs of approximately \$2.2 million were capitalized and are being amortized over the term of the bonds. Amortization of deferred financing costs is included in Interest expense.

Substantially all of our property is subject to the lien of the indenture securing our first mortgage bonds. First mortgage bonds may be issued in amounts limited by property, earnings and other provisions of the mortgage indentures.

**Series AC Bonds**

In February 2010, the Series 8.06% AC bonds matured. These were paid in full for \$30.0 million of principal plus accrued interest of \$1.2 million.

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NOTES TO FINANCIAL STATEMENTS (Continued)			

Series Y Bonds

In March 2010, we completed redemption of our Series Y 9.49% bonds in full. The bonds were originally due in 2018. A total of \$2.7 million was paid on March 31, 2010, which includes the principal balance of \$2.5 million plus accrued interest and an early redemption premium of 2.618%. The early redemption premium was recorded in unamortized loss on reacquired debt which is included in Regulatory assets on the accompanying Balance Sheet and is being amortized over the remaining term of the original bonds.

Series Z Bonds

In June 2010, we completed redemption of our Series Z 9.35% bonds in full. The bonds were originally due in 2021. A total of \$21.8 million was paid on June 1, 2010, which included the principal balance of \$20.0 million plus accrued interest and an early redemption premium of 4.675%. The early redemption premium was recorded in unamortized loss on reacquired debt which is included in Regulatory assets on the accompanying Balance Sheet and is being amortized over the remaining term of the original bonds.

Long-term Debt Maturities

Scheduled maturities of our outstanding long-term debt (excluding unamortized discounts) are as follows (in thousands):

2011	\$ 81
2012	\$ 36
2013	\$ —
2014	\$ 6,450
2015	\$ —
Thereafter	\$ 270,055



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NOTES TO FINANCIAL STATEMENTS (Continued)			

**(7) FAIR VALUE OF FINANCIAL INSTRUMENTS**

The estimated fair values of our financial instruments were as follows (in thousands):

	December 31, 2010		December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	\$ 2,045	\$ 2,045	\$ 1,709	\$ 1,709
Derivative financial instruments - Accrued liabilities	\$ —	\$ —	\$ 5	\$ 5
Long-term debt, including current maturities	\$ 276,503	\$ 301,964	\$ 329,069	\$ 344,942

The following methods and assumptions were used to estimate the fair value of each class of our financial instruments.

**Cash and Cash Equivalents**

The carrying amount approximates fair value due to the short maturity of these instruments.

**Derivative Financial Instruments**

These instruments are carried at fair value. Descriptions of the instruments we use are included in Note 5.

**Long-Term Debt**

The fair value of our long-term debt is estimated based on quoted market rates for debt instruments having similar maturities and similar debt ratings. Our outstanding first mortgage bonds are either currently not callable or are subject to make-whole provisions which would eliminate any economic benefits for us to call and refinance the first mortgage bonds.

**(8) INCOME TAXES**

Income tax expense (benefit) from continuing operations for the years ended was (in thousands):

	December 31, 2010	December 31, 2009	December 31, 2008
Current	\$ (14,885)	\$ (3,296)	\$ (6,521)
Deferred	25,626	11,600	16,072
Total income tax expense	\$ 10,741	\$ 8,304	\$ 9,551

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NOTES TO FINANCIAL STATEMENTS (Continued)			

The temporary differences which gave rise to the net deferred tax liability were as follows (in thousands):

	December 31, 2010	December 31, 2009
Deferred tax assets, current:		
Asset valuation reserve	\$ 217	\$ 90
Employee benefits	803	946
Rate refund	428	—
Other	—	2
Total deferred tax assets, current	1,448	1,038
Deferred tax liabilities, current:		
Prepaid expenses	(251)	(214)
Deferred costs	(2,056)	(2,677)
Total deferred tax liabilities, current	(2,307)	(2,891)
Net deferred tax assets (liabilities), current	\$ (859)	\$ (1,853)
Deferred tax assets, non-current:		
Plant related differences	\$ 909	\$ 1,151
Regulatory liabilities	10,074	7,847
Employee benefits	3,547	3,468
Net operating loss	9,147	—
Items of other comprehensive income	225	175
Research and development credit	1,613	1,038
Other	—	128
Total deferred tax assets, non-current	25,515	13,807
Deferred tax liabilities, non-current:		
Accelerated depreciation and other plant related differences	(132,338)	(93,253)
AFUDC	(6,168)	(4,926)
Regulatory assets	(5,557)	(10,011)
Employee benefits	(2,983)	(1,052)
Other	(788)	(772)
Total deferred tax liabilities, non-current	(147,834)	(110,014)
Net deferred tax assets (liabilities), non-current	\$ (122,319)	\$ (96,207)
Net deferred tax assets (liabilities)	\$ (123,178)	\$ (98,060)

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The following table reconciles the change in the net deferred income tax assets (liabilities) from December 31, 2009 to December 31, 2010 and from December 31, 2008 to December 31, 2009 to deferred income tax expense (benefit) (in thousands):

	2010	2009
Change in deferred income tax assets (liabilities)	\$ 25,118	\$ 11,824
Deferred taxes related to regulatory assets and liabilities	9,272	(1,323)
Deferred taxes associated with other comprehensive income	(2,141)	(73)
Deferred taxes related to property basis differences	(4,713)	2,851
Deferred taxes related to AFUDC	(1,910)	(1,679)
Other	—	—
Deferred income tax expense (benefit) for the period	\$ 25,626	\$ 11,600

The effective tax rate differs from the federal statutory rate for the years ended, as follows:

	December 31, 2010	December 31, 2009	December 31, 2008
Federal statutory rate	35.0%	35.0%	35.0%
Amortization of excess deferred and investment tax credits	(0.6)	(0.9)	(0.7)
Equity AFUDC	(2.0)	(6.2)	(3.6)
Flow through adjustments *	(7.4)	—	—
Other	0.6	(1.5)	(1.1)
	25.6%	26.4%	29.6%

\* The flow-through adjustments relate primarily to an accounting method change for tax purposes that was filed with the 2008 tax return and for which consent was received from the IRS in September 2009. The effect of the change allows us to take a current tax deduction for repair costs that were previously capitalized for tax purposes. These costs will continue to be capitalized for book purposes. We recorded a deferred income tax liability in recognition of the temporary difference created between book and tax treatment and we flowed the tax benefit through to our customers in the form of lower rates as a result of a rate case settlement that occurred during 2010. A regulatory asset was established to reflect the recovery of future increases in taxes payable from customers as the temporary differences reverse. Due to this regulatory treatment, we recorded an income tax benefit that was attributable to the 2008 through 2010 tax years. For years prior to 2008, we did not record a regulatory asset for the repairs deduction as the tax benefit was not flowed through to customers.

The accounting standards for uncertain tax positions clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with accounting standards for income taxes. The accounting standards prescribe a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken. The impact of this implementation had no effect on our financial statements.

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The following table reconciles the total amounts of unrecognized tax benefits at the beginning and end of the period (in thousands):

	2010	2009
Unrecognized tax benefits at January 1	\$ 3,877	\$ 767
Additions for prior year tax positions	130	3,110
Reductions for prior year tax positions	(913)	—
Unrecognized tax benefits at December 31	\$ 3,094	\$ 3,877

The reduction for prior year tax positions relate to the reversal through otherwise allowed tax depreciation. The total amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate is approximately \$1.1 million.

It is our continuing practice to recognize interest and/or penalties related to income tax matters in income tax expense. During the year ended December 31, 2010 and 2009, the interest expense recognized related to income tax matters was not material to our financial results.

The Company files income tax returns in the United States federal jurisdiction as a member of the BHC consolidated group. The Company does not anticipate that total unrecognized tax benefits will significantly change due to the settlement of any audits or the expiration of statutes of limitations prior to December 31, 2011.

At December 31, 2010, we have federal NOL carry forward of \$26.1 million which will expire in 2030. Ultimate usage of this NOL depends upon our future taxable income.

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**(9) COMPREHENSIVE INCOME**

The following tables display each component of Other Comprehensive Income (Loss), after-tax, and the related tax effects for the years ended (in thousands):

	December 31, 2010		
	Pre-tax Amount	Tax (Expense) Benefit	Net-of-tax Amount
Minimum pension liability adjustment	\$ (145)	\$ 51	\$ (94)
Reclassification adjustments of cash flow hedges settled and included in net income	64	(23)	41
Net change in fair value of derivatives designated as cash flow hedges	6	(2)	4
Other comprehensive loss	<u>\$ (75)</u>	<u>\$ 26</u>	<u>\$ (49)</u>

	December 31, 2009		
	Pre-tax Amount	Tax (Expense) Benefit	Net-of-tax Amount
Minimum pension liability adjustment	\$ 150	\$ (52)	\$ 98
Reclassification adjustments of cash flow hedges settled and included in net income	64	(24)	40
Net change in fair value of derivatives designated as cash flow hedges	(5)	3	(2)
Other comprehensive income	<u>\$ 209</u>	<u>\$ (73)</u>	<u>\$ 136</u>

	December 31, 2008		
	Pre-tax Amount	Tax Benefit	Net-of-tax Amount
Minimum pension liability adjustment	\$ (4)	\$ 1	\$ (3)
Reclassification adjustments of cash flow hedges settled and included in net income	(107)	38	(69)
Other comprehensive loss	<u>\$ (111)</u>	<u>\$ 39</u>	<u>\$ (72)</u>

Balances by classification included within Accumulated other comprehensive loss on the accompanying Balance Sheets were as follows (in thousands):

	December 31, 2010	December 31, 2009
Derivatives designated as cash flow hedges	\$ (848)	\$ (893)
Employee benefit plans	(414)	(320)
Total accumulated other comprehensive loss	<u>\$ (1,262)</u>	<u>\$ (1,213)</u>

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**(10) EMPLOYEE BENEFIT PLANS****Funded Status of Benefit Plans**

The funded status of postretirement benefit plan is required to be recognized in the statement of financial position. The funded status for pension plan is measured as the difference between the projected benefit obligation and the fair value of plan assets. The funded status for all other benefit plans is measured as the difference between the accumulated benefit obligation and the fair value of plan assets. A liability is recorded for an amount by which the benefit obligation exceeds the fair value of plan assets or an asset is recorded for any amount by which the fair value of plan assets exceeds the benefit obligation.

We apply accounting standards for regulated operations, and accordingly, the unrecognized net periodic benefit cost that would have been reclassified to Accumulated other comprehensive income (loss) was alternatively recorded as a regulatory asset or regulatory liability, net of tax.

The measurement date of plans should be the date of our year-end balance sheet. We had used a September 30 measurement date. During 2008, we changed the measurement date to December 31. Therefore, \$0.2 million, net of tax, was recognized as an adjustment to retained earnings.

**Defined Benefit Pension Plan**

We have a noncontributory defined benefit pension plan ("Pension Plan") covering employees who meet certain eligibility requirements. The benefits are based on years of service and compensation levels during the highest five consecutive years of the last ten years of service. Our funding policy is in accordance with the federal government's funding requirements. The Pension Plan's assets are held in trust and consist primarily of equity and fixed income investments. We use a December 31 measurement date for the Pension Plan.

In July 2009, the Board of Directors approved a partial freeze to the Pension Plan for all participants with the exception of bargaining unit participants. The freeze eliminated new non-bargaining unit employees from participation in the Pension Plan and froze the benefits of current non-bargaining unit participants except for the following group: those non-bargaining unit participants who are both 1) age 45 or older as of December 31, 2009 and have 10 years or more of credited service as of January 1, 2010; and 2) elect to continue to accrue additional benefits under the Pension Plan and consequently forego the additional age and points-based employer contribution under the Company's 401(k) retirement savings plan. As a result of this action, we recognized a pre-tax curtailment expense of approximately \$0.2 million in the third quarter of 2009.

In September of 2010, our bargaining unit employees voted to freeze participation in the Pension Plan and to freeze the benefits of current bargaining unit participants except for the following group: those bargaining unit participants who are both 1) age 45 or older as of December 31, 2010 and have 10 years or more of credited service as of January 1, 2011; and 2) elect to continue to accrue additional benefits under the Pension Plan and consequently forego the additional age and points-based employer contribution under the Company's 401(k) retirement savings plan. The change is effective January 1, 2011. As a result of this action, we recognized a pre-tax curtailment expense of less than \$0.1 million that was recognized in the fourth quarter of 2010.

The Pension Plan's expected long-term rate of return on assets assumption is based upon the weighted average expected long-term rate of returns for each individual asset class. The asset class weighting is determined using the target allocation for each asset class in the Pension Plan portfolio. The expected long-term rate of return for each asset class is determined primarily from adjusted long-term historical returns for the asset class. It is anticipated that long-term future returns will not achieve historical results.



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The expected long-term rate of return for equity investments was 9.25% and 9.50% for the 2010 and 2009 plan years, respectively. For determining the expected long-term rate of return for equity assets, we reviewed interest rate trends and annual 20-, 30-, 40-, and 50-year returns on the S&P 500 Index, which were, at December 31, 2010, 9.1%, 10.8%, 10.1% and 9.7%, respectively. Fund management fees were estimated to be 0.18% for S&P 500 Index assets and 0.45% for other assets. The expected long-term rate of return on fixed income investments was 5.75%; the return was based upon historical returns on 10-year treasury bonds of 6.9% from 1962 to 2009, and adjusted for recent declines in interest rates. The expected long-term rate of return on cash investments was estimated to be 1.0%, which was based upon current one-year LIBOR rates.

#### Pension Plan Assets

Percentage of fair value of Pension Plan assets at December 31:

	<u>2010</u>	<u>2009</u>
Equity	68%	72 %
Fixed income	29	25
Cash	3	3
Total	100%	100 %

The Investment Policy for the Pension Plans is to seek to achieve the following long-term objectives: 1) a rate of return in excess of the annualized inflation rate based on a five-year moving average; 2) a rate of return that meets or exceeds the assumed actuarial rate of return as stated in the Plan's actuarial report; 3) a rate of return on investments, net of expenses, that is equal to or exceeds various benchmark rates on a moving three-year average, and 4) maintenance of sufficient income and liquidity to pay monthly retirement benefits. The policy strategy seeks to prudently invest in a diversified portfolio of predominately equity and fixed income assets.

The policy contains certain prohibitions on transactions in separately managed portfolios in which the Pension Plan may invest, including prohibitions on short sales.

#### **Supplemental Non-qualified Defined Benefit Retirement Plans**

We have various supplemental retirement plans ("Supplemental Plans") for key executives. The Supplemental Plans are non-qualified defined benefit plans. We use a December 31 measurement date for the Supplemental Plans. Effective January 1, 2010, we eliminated a non-qualified pension plan in which some of our officers participated due to the partial freeze of our qualified pension plan. We also amended the Non-qualified Deferred Compensation Plan (NQDC), which was adopted in 1999. The NQDC is a non-qualified deferred compensation plan that provides executives with an opportunity to elect to defer compensation and receive benefits without reference to the limitations on contributions in the Plan or those imposed by the IRS. The amended NQDC provides for non-elective non-qualified restoration benefits to certain officers who are not eligible to continue accruing benefits under the Defined Benefit Pension Plans and associated non-qualified pension restoration plans. All contributions to the non-qualified plans are subject to a graded vesting schedule of 20% per year over five years with vesting credit beginning with service in the Plan on and after January 1, 2010.

#### Supplemental Plan Assets

The Supplemental Plans have no assets. We fund on a cash basis as benefits are paid.

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### Non-pension Defined Benefit Postretirement Plan

Employees who are participants in our Non-Pension Postretirement Healthcare Plan ("Healthcare Plan") and who retire on or after attaining age 55 after completing at least five years of service are entitled to postretirement healthcare benefits. These benefits are subject to premiums, deductibles, co-payment provisions and other limitations. We may amend or change the Healthcare Plan periodically. We are not pre-funding our retiree medical plan. We use a December 31 measurement date for the Healthcare Plan. In July 2009, the Board of Directors approved an amendment to the Healthcare Plan which changed the structure of the Healthcare Plan for non-union employees to a Retiree Medical Savings Account (RMSA) structure. This change was effective January 1, 2010. In September 2010, the bargaining unit employees voted to change the structure of their benefits to an RMSA. This change is effective January 1, 2011. It has been determined that the Healthcare Plan's post-65 retiree prescription drug plans are actuarially equivalent and qualify for the Medicare Part D subsidy.

#### Plan Assets

The Healthcare Plan has no assets. We fund on a cash basis as benefits are paid.

### Plan Contributions and Estimated Cash Flows

Contributions made to the Supplemental Non-qualified Defined Benefit Retirement Plans and the Non-pension Defined Benefit Postretirement Plan are expected to be made in the form of benefit payments. Contributions to each of the plans were as follows (in thousands):

	2010	2009
<u>Defined Benefit Plans</u>		
Defined Benefit Pension Plan	\$ 8,798	\$ —
Non-pension Defined Benefit Postretirement Healthcare Plan	\$ 657	\$ 578
Supplemental Non-Qualified Defined Benefit Plan	\$ 108	\$ 89
<u>Defined Contribution Plans</u>		
Company Retirement Contribution	\$ 171	\$ —
Matching contributions	\$ 1,029	\$ 712

Contributions to our employee benefit plans to be made in 2011 are as follows (in thousands):

	2011
<u>Defined Benefit Plans</u>	
Defined Benefit Pension Plan	\$ —
Non-Pension Defined Benefit Postretirement Healthcare Plan	\$ 503
Supplemental Non-Qualified Defined Benefit Plan	\$ 108

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### Fair Value Measurements

Accounting standards for fair value measurements provide a single definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and also requires disclosures and establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The pension plan is able to classify fair value balances based on the observability of inputs.

Financial assets and liabilities carried at fair value are classified and disclosed in one of the following three categories:

*Level 1* - Unadjusted quoted prices available in active markets that are accessible at the measurement date for identical unrestricted assets or liabilities.

*Level 2* - Pricing inputs include quoted prices for identical or similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

*Level 3* - Pricing inputs include significant inputs that are generally less observable from objective sources.

As required by accounting standards for fair value measurements, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect their placement within the fair value hierarchy levels. The following tables set forth, by level within the fair value hierarchy, the assets that were accounted for at fair value on a recurring basis as of December 31 (in thousands):

Defined Benefit Pension Plan Recurring Fair Value Measures	December 31, 2010			
	Level 1	Level 2	Level 3	Total Fair Value
Registered Investment Companies	\$ 28,042	\$ —	\$ —	\$ 28,042
Common Collective Trust	—	19,104	—	19,104
Insurance contracts	—	1,082	—	1,082
Total investments measured at fair value	\$ 28,042	\$ 20,186	\$ —	\$ 48,228

Defined Benefit Pension Plan Recurring Fair Value Measures	December 31, 2009			
	Level 1	Level 2	Level 3	Total Fair Value
Registered Investment Companies	\$ 22,632	\$ —	\$ —	\$ 22,632
Common Collective Trust	—	16,408	—	16,408
Total investments measured at fair value	\$ 22,632	\$ 16,408	\$ —	\$ 39,040

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**Plan Reconciliations**

The following tables provide a reconciliation of the Employee Benefit Plan's obligations and fair value of assets, components of the net periodic expense and elements of regulatory assets and liabilities and AOCI (in thousands):

Benefit Obligations

	Defined Benefit Pension Plans		Supplemental Nonqualified Defined Benefit Retirement Plans		Non-pension Defined Benefit Postretirement Plans	
	2010	2009	2010	2009	2010	2009
Change in benefit obligation:						
Projected benefit obligation at beginning of year	\$ 55,615	\$ 51,965	\$ 1,690	\$ 1,672	\$ 9,432	\$ 7,393
Service cost	1,215	1,155	—	—	340	216
Interest cost	3,280	3,143	100	100	547	444
Actuarial loss (gain)	4,129	1,686	54	7	(88)	3,474
Amendments	260	100	—	—	(2,270)	(1,960)
Discount rate change	—	1,047	—	—	—	—
Benefits paid	(2,472)	(2,312)	(109)	(89)	(658)	(579)
Asset transfer (to) from affiliate	(3,300)	(121)	417	—	(328)	(23)
Plan curtailment reduction	(974)	(1,048)	—	—	—	—
Medicare Part D adjustment	—	—	—	—	88	46
Plan participants' contributions	—	—	—	—	454	421
Net increase (decrease)	2,138	3,650	462	18	(1,915)	2,039
Projected benefit obligation at end of year	\$ 57,753	\$ 55,615	\$ 2,152	\$ 1,690	\$ 7,517	\$ 9,432

A reconciliation of the fair value of Plan assets (as of the December 31 measurement date) is as follows (in thousands):

	Defined Benefit Pension Plans		Supplemental Nonqualified Defined Benefit Retirement Plans		Non-pension Defined Benefit Postretirement Plans	
	2010	2009	2010	2009	2010	2009
Beginning market value of plan assets	\$ 39,040	\$ 32,100	\$ —	\$ —	\$ —	\$ —
Investment income	5,361	9,337	—	—	—	—
Benefits paid	(2,472)	(2,312)	—	—	—	—
Employer contributions	8,798	—	—	—	—	—
Asset transfer to affiliate	(2,499)	(85)	—	—	—	—
Ending market value of plan assets	\$ 48,228	\$ 39,040	\$ —	\$ —	\$ —	\$ —

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Amounts recognized in the statement of financial position consist of (in thousands):

	Defined Benefit Pension Plans		Supplemental Nonqualified Defined Benefit Retirement Plans		Non-pension Defined Benefit Postretirement Plans	
	2010	2009	2010	2009	2010	2009
Regulatory asset (liability)	\$ 18,049	\$ 19,580	\$ —	\$ —	\$ (1,050)	\$ 1,443
Current (liability)	\$ —	\$ —	\$ (141)	\$ (98)	\$ (428)	\$ (325)
Non-current (liability)	\$ (9,525)	\$ (16,576)	\$ (2,011)	\$ (1,592)	\$ (7,096)	\$ (9,110)

#### Accumulated Benefit Obligation

	Defined Benefit Pension Plans		Supplemental Nonqualified Defined Benefit Retirement Plans		Non-pension Defined Benefit Postretirement Plans	
	2010	2009	2010	2009	2010	2009
Accumulated benefit obligation	\$ 52,250	\$ 47,745	\$ 2,058	\$ 1,645	\$ 7,517	\$ 9,432

#### Components of Net Periodic Expense

	Defined Benefit Pension Plans			Supplemental Nonqualified Defined Benefit Retirement Plans			Non-pension Defined Benefit Postretirement Plans		
	2010	2009	2008	2010	2009	2008	2010	2009	2008
Service cost	\$ 1,214	\$ 1,155	\$ 1,117	\$ —	\$ —	\$ —	\$ 340	\$ 216	\$ 211
Interest cost	3,280	3,143	3,032	100	100	120	547	444	417
Expected return on assets	(3,008)	(2,780)	(4,374)	—	—	—	—	—	—
Amortization of prior service cost	62	87	112	—	—	1	(141)	—	—
Amortization of transition obligation	—	—	—	—	—	—	171	51	51
Recognized net actuarial loss (gain)	1,378	1,586	—	30	43	44	—	—	(1)
Curtailment expense	57	189	—	—	—	—	—	—	—
Net periodic expense	\$ 2,983	\$ 3,380	\$ (113)	\$ 130	\$ 143	\$ 165	\$ 917	\$ 711	\$ 678

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Accumulated Other Comprehensive Income (Loss)

Amounts included in AOCI, after-tax, that have not yet been recognized as components of net periodic benefit cost at December 31 were as follows (in thousands):

	Defined Benefit Pension Plans		Supplemental Nonqualified Defined Benefit Retirement Plans		Non-pension Defined Benefit Postretirement Plans	
	2010	2009	2010	2009	2010	2009
Net loss	\$ —	\$ —	\$ (418)	\$ (324)	\$ —	\$ —
Prior service cost	—	—	—	—	—	—
Transition obligation	—	—	—	—	—	—
	\$ —	\$ —	\$ (418)	\$ (324)	\$ —	\$ —

The amounts in AOCI, regulatory assets or regulatory liabilities, after-tax, expected to be recognized as a component of net periodic benefit cost during calendar year 2011 were as follows (in thousands):

	Defined Benefits Pension Plans	Supplemental Nonqualified Defined Benefit Retirement Plans	Non-pension Defined Benefit Postretirement Plans
Net loss	\$ 966	\$ 31	\$ 106
Prior service cost	40	—	(204)
Transition obligation	—	—	—
Total net periodic benefit cost expected to be recognized during calendar year 2011	\$ 1,006	\$ 31	\$ (98)



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Assumptions

	Defined Benefit Pension Plans			Supplemental Nonqualified Defined Benefit Retirement Plans			Non-pension Defined Benefit Postretirement Plans		
	2010	2009	2008	2010	2009	2008	2010	2009	2008
Weighted-average assumptions used to determine benefit obligations:									
Discount rate	5.50%	6.05%	6.20%	5.50%	6.10%	6.20%	5.00%	5.90%	6.10%
Rate of increase in compensation levels	3.70%	4.25%	4.25%	5.00%	5.00%	5.00%	N/A	N/A	N/A
Weighted-average assumptions used to determine net periodic benefit cost for plan year:									
Discount rate	6.05%	6.25%	6.35%	6.10%	6.20%	6.35%	5.90%	6.10%	6.35%
Expected long-term rate of return on assets*	8.00%	8.50%	8.50%	N/A	N/A	N/A	N/A	N/A	N/A
Rate of increase in compensation levels	4.25%	4.25%	4.34%	5.00%	5.00%	N/A	N/A	N/A	N/A

\* The expected rate of return on plan assets changed to 7.75% for the calculation of the 2011 net periodic pension cost.

The healthcare benefit obligation was determined at December 31, 2010, using an initial healthcare trend rate of 9.5% grading down to an ultimate rate of 4.5% in 2027, and at December 31, 2009, using an initial healthcare trend rate of 10.0% trending down to an ultimate rate of 4.5% in 2027.

The healthcare cost trend rate assumption has a significant effect on the amounts reported. A 1% increase or 1% decrease in the healthcare cost trend assumptions would affect the service and interest costs and the accumulated periodic postretirement benefit obligation as follows (dollars in thousands):

	Service and Interest Costs		Accumulated Periodic Postretirement Benefit Obligation	
	Dollars	Percent	Dollars	Percent
1% increase	\$ 147	17 %	\$ 426	6 %
1% (decrease)	\$ (114)	(13) %	\$ (375)	(5) %



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Advances under this note bear interest at 2.75% above the daily LIBOR rate (3.01% at December 31, 2010). We had the following balances with the Utility Money Pool as of and for the years ended December 31 (in thousands):

	2010	2009	2008
Notes receivable (payable) with Utility Money Pool, net	\$ 39,862	\$ 57,737	\$ (70,184)
Net interest revenue (expense)	\$ 467	\$ (1,123)	\$ (865)

#### Other Balances and Transactions

We had the following related party transactions for the years ended December 31, 2010 and 2009 included in the corresponding captions in the accompanying Statements of Income:

- ☐ We received revenues from Black Hills Wyoming, Inc. for the transmission of electricity.
- ☐ We received revenues from Cheyenne Light for the sale of electricity and dispatch services.
- ☐ We recorded revenues relating to payments received pursuant to a natural gas swap entered into with Enserco.
- ☐ We purchase coal from WRDC. These amounts are included in Fuel and purchased power on the accompanying Statements of Income.
- ☐ We purchase excess power generated by Cheyenne Light.
- ☐ In order to fuel our combustion turbine, we purchase natural gas from Enserco. These amounts are included in Fuel and purchased power on the accompanying Statements of Income.
- ☐ In addition, we also pay the Parent for allocated corporate support service costs incurred on our behalf.
- ☐ We have two contracts with Cheyenne Light under which Cheyenne Light sells up to 40 MW of wind-generated, renewable energy to us.

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	2010	2009	2008
	(in thousands)		
Revenues:			
Black Hills Wyoming for transmission of electricity	\$ 1,378	\$ 873	\$ 1,245
Cheyenne Light for electricity and dispatch services	\$ 1,200	\$ 1,823	\$ 2,778
Natural gas swaps from Enserco	\$ —	\$ —	\$ 200
Purchases:			
Coal purchases from WRDC	\$ 13,569	\$ 16,284	\$ 15,469
Excess power purchased from Cheyenne Light	\$ 8,664	\$ 8,580	\$ 6,387
Natural gas from Enserco	\$ 1,652	\$ 2,250	\$ 8,049
Corporate support services from Parent	\$ 17,145	\$ 15,014	\$ 12,391
Renewable wind energy from Cheyenne Light	\$ 4,538	\$ 2,791	\$ 628

We have funds on deposit from Black Hills Wyoming for transmission system reserve which are included in Other, non-current liabilities on the accompanying Balance Sheets. We have transmission system reserve balances as follows as of December 31 (in thousands):

	2010	2009
Deferred credits and other liabilities	\$ 2,044	\$ 1,978

Interest on the transmission system reserve deposit accrues quarterly at an average prime rate (3.25% at December 31, 2010). We paid interest for the years ended December 31 as follows (in thousands):

	2010	2009	2008
Interest expense	\$ 65	\$ 70	\$ 114

## (12) SUPPLEMENTAL CASH FLOW INFORMATION

Years ended December 31,	2010	2009	2008
	(in thousands)		
Non-cash investing activities -			
Property, plant and equipment financed with accrued liabilities	\$ 7,188	\$ 10,191	\$ 13,294
Money pool activity - net repayment of funds loaned	\$ —	\$ 25,000	\$ —
Non-cash financing activities -			
Money pool activity - net repayment of funds borrowed	\$ —	\$ (25,000)	\$ —
Supplemental disclosure of cash flow information:			
Cash (paid) refunded during the period for -			
Interest (net of amounts capitalized)	\$ (19,554)	\$ (14,252)	\$ (11,578)
Income taxes	\$ 15,805	\$ 3,700	\$ 5,877

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 04/18/2011	Year/Period of Report 2010/Q4
Black Hills Power, Inc.			
NOTES TO FINANCIAL STATEMENTS (Continued)			

**(13) COMMITMENTS AND CONTINGENCIES****Partial Sale of Wygen III**

On April 9, 2009, we sold to MDU a 25% ownership interest in our Wygen III generation facility. At closing, MDU made a payment to us for its 25% share of the costs to date on the ongoing construction of the facility. Proceeds of \$32.8 million were received of which \$30.2 million was used to pay down a portion of the Acquisition Facility. MDU continued to reimburse us for its 25% of the total costs paid to complete the project. The Wygen III generation facility began commercial operations on April 1, 2010. In conjunction with the sales transaction, we also modified a 2004 PPA between us and MDU.

On July 14, 2010, we sold a 23% ownership interest in Wygen III to the City of Gillette for \$62.0 million. The purchase terminates the current PPA with the City of Gillette, and the Wygen III Participation Agreement has been amended to include the City of Gillette. The Participation Agreement provides that the City of Gillette will pay us for administrative services and share in the costs of operating the plant for the life of the facility. The estimated amount of net fixed assets sold totaled \$55.8 million. We recognized a gain on the sale of \$6.2 million.

**Power Purchase and Transmission Services Agreements**

We have the following power purchase and transmission agreements as of December 31, 2010:

- ☐ A PPA with PacifiCorp expiring in 2023, which provides for the purchase by us of 50 MW of electric capacity and energy. The price paid for the capacity and energy is based on the operating costs of one of PacifiCorp's coal-fired electric generating plants;
- ☐ A firm point-to-point transmission access agreement to deliver up to 50 MW of power on PacifiCorp's transmission system to wholesale customers in the western region through 2023;
- ☐ Cheyenne Light entered into a 20-year PPA with Happy Jack for 29.4 MW of energy. Under a separate inter-company agreement expiring in 2028, Cheyenne Light has agreed to sell 50% of the facility output from Happy Jack to us;
- ☐ Cheyenne Light entered into a 20-year PPA with Silver Sage for 30 MW of energy. Under a separate inter-company agreement expiring in 2029, Cheyenne Light has agreed to sell 20 MW of energy from Silver Sage to us; and
- ☐ A Generation Dispatch Agreement with Cheyenne Light that requires us to purchase all of Cheyenne Light's excess energy.

Costs incurred under these agreements were as follows for the years ended December 31 (in thousands):

Contract	Contract Type	Expiring	2010	2009	2008
PacifiCorp	Electric capacity and energy	2023	\$ 12,936	\$ 11,862	\$ 11,571
PacifiCorp	Transmission access	2023	\$ 1,215	\$ 1,215	\$ 1,215
Cheyenne Light	Happy Jack Wind Farm	2028	\$ 2,815	\$ 2,078	\$ 628
Cheyenne Light	Silver Sage Wind Farm	2029	\$ 1,723	\$ 713	\$ —

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NOTES TO FINANCIAL STATEMENTS (Continued)			

### Long-Term Power Sales Agreements

We have the following power sales agreements as of December 31, 2010:

- ☐ In March 2010, we entered into a seven-year PPA and Purchase Option Agreement with the City of Gillette effective April 2010 that replaces a previous agreement. This PPA provided the City of Gillette, with an option to purchase a 23% ownership interest in our Wygen III facility which commenced commercial operations on April 1, 2010. The City of Gillette exercised its option to purchase the 23% ownership interest in Wygen III and the transaction closed in July 2010. The PPA terminated upon the closing of the transaction. We retain responsibility for operations of the facility with a life-of-plant lease and agreement for operations and coal supply. We entered into a five year agreement with the City of Gillette to dispatch the City of Gillette's first 23% of net generating capacity. MWs from the Wygen III unit are deemed to supply a portion of the City of Gillette's capacity and energy annually. During periods of reduced production at Wygen III, or during periods when Wygen III is off-line, we will provide the City of Gillette with its first 23% from our other generating facilities or from system purchases with reimbursement of costs by the City of Gillette. Under this agreement, we will also provide the City of Gillette their operating component of spinning reserves;
- ☐ An agreement with MDU to provide 25% of Wygen III's net generating capacity for the life of the plant. In conjunction with MDU's April 2009 purchase of 25% ownership interest in Wygen III, an agreement to supply 74 MW of capacity and energy through 2016 was modified. The sales to MDU have been integrated into our control area and are considered part of our firm native load. MWs from the Wygen III unit are deemed to supply a portion of the required 74 MW. During periods of reduced production at Wygen III, or during periods when Wygen III is off-line, MDU will be provided with its 25 MW from our other generation facilities or from system purchases with reimbursement of costs by MDU;
- ☐ An agreement under which we supply 20 MW of energy and capacity to MEAN under a contract that expires in 2023. This contract is unit-contingent based on the availability of our Neil Simpson II and Wygen III plants, with capacity purchase decreasing to 15 MW in 2018, 12 MW in 2020 and 10 MW in 2022. The unit-contingent capacity amounts from Wygen III and Neil Simpson II are as follows:
 

2010-2017	20 MW - 10 MW contingent on Wygen III and 10 MW contingent on Neil Simpson II
2018-2019	15 MW - 10 MW contingent on Wygen III and 5 MW contingent on Neil Simpson II
2020-2021	12 MW - 6 MW contingent on Wygen III and 6 MW contingent on Neil Simpson II
2022-2023	10 MW - 5 MW contingent on Wygen III and 5 MW contingent on Neil Simpson II; and
- ☐ A five-year PPA with MEAN which commenced on April 1, 2010. Under this contract, MEAN purchases 5 MW of unit-contingent capacity from Neil Simpson II and 5 MW of unit-contingent capacity from Wygen III.

### Legal Proceedings

#### Ongoing Litigation

We are subject to various legal proceedings, claims and litigation which arise in the ordinary course of operations. In the opinion of management, the amount of liability, if any, with respect to these actions would not materially affect our financial position, results of operations or cash flows.

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Black Hills Power, Inc.			
NOTES TO FINANCIAL STATEMENTS (Continued)			

**(14) QUARTERLY HISTORICAL DATA (Unaudited)**

We operate on a calendar year basis. The following table sets forth selected unaudited historical operating results data for each quarter (in thousands):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2010				
Operating revenues	\$ 54,489	\$ 56,438	\$ 59,051	\$ 59,785
Operating income	\$ 9,361	\$ 10,510	\$ 21,092	\$ 14,305
Net income	\$ 5,934	\$ 4,102	\$ 14,078	\$ 7,154
2009				
Operating revenues	\$ 54,458	\$ 46,836	\$ 53,086	\$ 52,699
Operating income	\$ 10,705	\$ 5,006	\$ 8,920	\$ 10,174
Net income	\$ 6,964	\$ 3,105	\$ 7,166	\$ 5,904